

MERU UNIVERSITY
OF
SCIENCE AND TECHNOLOGY
ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public-Sector Accounting Standards (IPSAS)

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2018

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Through the Legal Notice No.103 of July 18, 2008, the then Meru College of Technology was upgraded to a constituent college of Jomo Kenyatta University of Agriculture and Technology and renamed Meru University College of Science and Technology. On March 1 2013, the University acquired fully fledged university status and became Meru University of Science and Technology. The University is located 16 km from Meru town along Meru-Maua road in Meru County, Tigania West Constituency.

(b) Principal Activities

The principal activities of the University are to:

- a) provide and advance university education and training to appropriately qualified candidates leading to the conferment of degrees and award of diplomas and certificates and such other qualifications as the Council and the Senate shall from time to time determine and in so doing, contribute to labour market needs;
- b) play a leading role in the development and expansion of opportunities for higher education and research in agriculture, forestry, mining, energy, water and environmental sciences on arid and semi-arid lands;
- c) contribute to industrial and technological development through innovations and technology transfer;
- d) contribute to agricultural, industrial and technological development of Kenya in collaboration with industry and other institutions through transfer of appropriate technology

(c) Key Management

The University's day-to-day management is under the following key organs:

- University Senate
- University Management Board

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name	Remarks
1.	Vice Chancellor	Prof. Japhet K. Magambo	1 July 2017-6 March 2018
2.	Deputy Vice Chancellor (Administration, Finance and Planning) Acting Vice Chancellor	Prof. Charity W. Gichuki	Acting VC from 6 March 2018 to 30 June, 2018
3.	Deputy Vice Chancellor (Academic, Research and Student Affairs)	Prof. Gitonga Mburugu Nkanata	
4.	Acting Deputy Vice Chancellor (AFP)	Dr. Guyo Huka	6 March -30 June 2018

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5.	Registrar (Administration and Planning)	Dr. Elijah Walubuka	
6.	Registrar (Academic, Research & Student Affairs)	Prof. Peter Wafula Masinde	1 July 2017-January 2018
7.	Ag. Registrar (Academic, Research & Student Affairs)	Dr. Eunice Marete	January 2018 to June 2018
8.	Finance Officer	CPA Nephath Njeru	
9.	Deputy Registrar (Human Resources)	Ms. Evelyne Gitonga	

(e) Fiduciary Oversight Arrangements

Audit Committee of the Council activities

The Audit Committee of the Council assists the Council in fulfilling its responsibilities with respect to accounting and management control, and also financial reporting. Specifically, the Audit Committee is responsible for overseeing:

- The internal audit function and the work of external auditor,
- That the system of the management control in the University is robust and effective and protects the assets of the University on a reasonable and economic basis,
- Ensures that financial information is reliable and accurate,
- Monitors compliance with laws and regulations,
- Provides for proper authorization and recording of transactions.

The Committee had five members.

(f) The University Headquarters

Meru University of Science and Technology

Physical Address: Meru-Maua Road, 16 kilometres from Meru Town

P.O Box 972 – 60200, **MERU**

(g) Entity Contacts

Telephone: (254) 0704 508 454

E-mail: finance@must.ac.ke, vc@must.ac.ke

Website: www.must.ac.ke

P.O Box 972 – 60200, Meru -Kenya

(h) University Bankers

1. National Bank of Kenya – Meru Branch
P.O Box 1774 – 60200, **MERU**
2. Kenya Commercial Bank Ltd- Meru Branch
P.O Box – 178 – 60200, **MERU**

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3. Equity Bank –Makutano Branch
P.O. Box 3137 -60200, **MERU**
4. Cooperative Bank- Makutano Branch
P.O. Box 1328-60200, **MERU**
5. Central Bank of Kenya
P.O. Box 60000-00200 Nairobi, Kenya

(i) Independent Auditors

Auditor General
Office of the Auditor General,
Anniversary Towers, University Way,
P.O. Box 30084 GOP 00100,
Nairobi, Kenya

(j) Principal Legal Adviser



The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112 City Square 00200
Nairobi, Kenya

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THE UNIVERSITY COUNCIL

Council is the University's highest governing body, responsible for setting the general strategic direction of the University, for ensuring proper accountability, and for the management of its finances, property and investments and the general business of the university. It approves the University's key policies and plans pertinent to its three core functions: teaching, research and public service. In that connection, the Council makes sure that the University always maintains high standards in the three core areas just mentioned. To ensure that MUST really does this, the Council reviews its performance from time to time. It also appoints persons to various leadership positions in the University. The University Council is composed of the Chairperson and eight members. All the members other than the Vice Chancellor are drawn from outside the University.

The following are the Council members who served during the period:

<p>1. PROF. DULACHA GALGALO BARAKO</p> 	<p>He completed Bachelor of Commerce (1993) and Master of Business Administration (1996) degrees at the University of Nairobi. He completed his PhD at the University of Western Australia. He has published widely in accounting and finance.</p> <p>Prof. Barako served as Treasurer to the Council of Moi University (2009 – 2012), and Chairman of Council of Dedan Kimathi University of Technology (2013 – 2017). He was appointed Chairman of Council of Meru University of Science and Technology in March 2017. He is a Fellow of the <i>Institute of Public Accountants</i>, Australia and a Member of the <i>Accounting and Finance Association of Australia and New Zealand (AFAANZ)</i>. He is also a member of the Institute of Certified Investment and Financial Analysts, Kenya (ICIFA – K) as well as member Kenya Institute of Management (KIM).</p>
<p>2. MS FELICITY BIRIRI</p> 	<p>Felicity N Biriri holds a Bachelor of Arts degree in Human Resource Management and a Master's degree in Conflict Resolution and Peace Management from Kenyatta University.</p> <p>Ms. Biriri has also undergone professional trainings on Corporate Governance, Enterprise Risk Management, Performance Management, Project and Contract Compliance and the Mwongozo Code of Ethics among others.</p> <p>Ms. Biriri is a Human Resource professional with more than 18 years' experience in various sectors including banking, advertising and manufacturing. Ms. Biriri has sat in several Boards such as Geothermal Development Company, Kenya Private Sector Alliance (KEPSA) and is a trustee of the KEPSA Foundation, COMESA-FEMCOM, Moi University Council, the National Environmental Ombudsman NECC and The Kenya Pipeline Company. She is the current Chairperson of the Kenya Pipeline Company Retirement Benefits Scheme.</p>




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<p>3. MS. MARY W MUGO</p> 	<p>Ms Mary W Mugo holds a Bachelor of Education (Business Studies and Economics) degree from University of Nairobi and a Master of Arts (Counselling Psychology) from Kenyatta University.</p> <p>Ms Mugo is a long-serving education specialist having worked in the Government of Kenya as a Civil Servant for over 20 years and over 5 years in Non-Government Organizations. She has worked in the education sector at different capacities including leadership and management, policy development, education programming, engagement and partnership. She taught at Tala High School from 1991 to 1995, and then moved to the Ministry of Education headquarters as the Peace Education National Coordinator. She has also served in the Office of the President as the Chief Government Counsellor. She later joined Teachers Service Commission and served for two years as the Senior Principal Administration officer. She joined World Vision Kenya in 2012 and served as an Associate Director of Education and Protection until 2016. She is currently the Country Director, Build Africa Kenya Country Office.</p> <p>Ms Mugo has served as a Board Member of Christ Compassion Rehabilitation Centre.</p>
<p>4. MRS. MARGARET M MUKOBA</p> 	<p>Mrs Mukoba holds a Master Degree in Business Administration from the United States International University (USIU-A) with a double concentration in Strategic Management and in IT management. She also has a Bachelor of Technology degree in Electrical and Communications Technology from Moi University, and a certificate in Financial Markets from the Securities Institute of Australia. Mrs Margaret Mukoba is a certified professional in IT Governance and a certified Information Security Manager.</p> <p>Mrs. Mukoba is a business executive and ICT professional with over 25 years of experience in a career spanning ICT services, News & information, Agriculture and Manufacturing industries. She has held senior management roles in a commercial environment in planning and implementing corporate and IT strategy, leading corporate teams in dealing effectively with technology related risks and deriving maximum value from data and technology enabled business processes; identifying, assessing and advising on IT risks and controls, and relating them to the wider business environment.</p> <p>Mrs. Mukoba has led, planned and implemented strategies and business technology solutions within 14 countries in the East African region and the Indian Ocean islands, and worked with different teams in multi-cultural and multi-skilled environments in Africa, Asia and Europe.</p>

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<p>5. MR. OMAR KASSIM ABIKAR</p> 	<p>Mr. Omar Kassim holds a Master of Business Administration (Strategic Management) from Moi University and Higher Diploma in Water Engineering. He is a registered Tech. Engineer with Engineers Registration Board.</p> <p>Currently, he is the Executive Director of Kenya Muslims Charitable Trust, an NGO working in the areas of Development, Health, Education, Humanitarian, Culture and Environmental programs among others. He has previously worked with Ministry of Water Development, National Water Conservation & Pipeline Corporation and Telkom Kenya in various capacities. He has undertaken various Consultancies, Evaluations and Research studies in Project Management with a blend of Engineering, Administration and Management skills in public, private and non-governmental sectors of society.</p>
<p>6. MR. ROBERT KIPKIRUI MUTAI</p> 	<p>Mr. Kipkirui holds a Master in Business Administration degree (JKUAT) and an Electrical & Electronics Engineering degree (JKUAT). He is also an advance management graduate of Strathmore/IEESE Business School.</p> <p>Mr. Kipkurui is a telecommunications Leader with over 15 years' experience in ICT sector. Currently, he serves as head of Technology Strategy, Assurance & Governance at Safaricom.</p>
<p>7. DR. MESHACK OPWORA</p> 	<p>Dr. Meshack Chuma Opwora holds a PhD from the University of Newcastle, Australia. He also holds a Master of Business Administration from Kenyatta University and a Bachelor of Education in Educational Administration and Planning from the University of Nairobi.</p> <p>Dr. Opwora is the acting Director of Technical Education. He represented the Principal Secretary, Department of University Education and Research, in the Council up to 3rd June, 2018.</p>
<p>8. CPA ISABELLA KOGEI</p> 	<p>CPA Isabella Kogei is a qualified Certified Public Accountant of Kenya.</p> <p>CPA Isabella has vast experience in finance and accounting in both public and private sectors. She has worked in senior roles in finance and administration and contributed to organizational resource planning, financial reporting and management at strategic level. CPA Isabella is a member of the Secretariat to Intergovernmental Budget and Economic Council (IBEC) and the Institute and Certified Public Accountants of Kenya (ICPAK). She is also Senior Finance Officer at the National Treasury and the Parliamentary Liaison Officer who links National Treasury and both Houses of Parliament in all parliamentary businesses.</p> <p>CPA Isabella represents the Principal Secretary, The National Treasury, in the Council</p>

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<p>9. Ms Margaret Iyasi Lesuuda</p> 	<p>Ms Margaret Iyasi Lesuuda holds a Master of Arts - Peace-building from Coventry University. She also holds a Master of Ed. Administration from the University of Nairobi and a Bachelor of Education from Kenyatta University. Currently she is pursuing PhD in Higher education management at the University of Bath, UK.</p> <p>Ms. Lesuuda is the Regional Coordinator of Education, Eastern Region. She represents the Principal Secretary, Department of University Education and Research in the Council with effect from 4th June 2018.</p>
<p>10. PROF. JAPHET K. MAGAMBO</p> 	<p>Vice Chancellor and Ex Officio Member:</p> <p>Prof. Japhet K Magambo holds a M.Sc. (Wales, UK) and a Ph.D (University of New Brunswick, Canada). He has carried out many research works and published extensively.</p> <p>Prof. Magambo was the Vice Chancellor and the Chief Executive Officer of the University during financial year 2017/18. He was appointed the first Principal of Meru University College of Science and Technology in the year 2009. He became the first Vice Chancellor after the University was chartered in 2013 until 6th March 2018.</p>
<p>11. PROF. CHARITY GICHUKI</p> 	<p>Prof. Gichuki holds a PhD (1994) from the University of Glasgow and Bachelor of Veterinary Medicine (BVM, 1987) from the University of Nairobi.</p> <p>Prof. Gichuki has practiced as a veterinary surgeon with the Government of Kenya. She has also worked with the Kenya Trypanosomiasis Research Institute (KETRI) as a Senior Research Officer. She lectured at Kenyatta University between 1999 and 2011, where she grew through the ranks to an Associate Professor. In May 2011, she joined the Presbyterian University of East Africa as a Research Professor. While working there, she grew to become the Deputy Vice-Chancellor, in charge of Academic Affairs, Administration and Finance. In 2014, she joined Meru University of Science and Technology as a Deputy Vice-Chancellor in charge of Administration, Finance and Planning. She was served as acting Vice-Chancellor from 6th March 2018 to 30th June 2018.</p>

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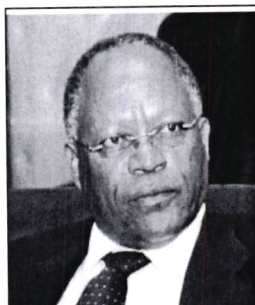
COMMITTEES OF THE COUNCIL

Name of the Committee	Members
Finance Committee	<ul style="list-style-type: none"> a. Ms. Felicity Biriri b. CPA Isabella Kogei c. Dr. Meshack Opwora/ Ms Margaret Iyasi Lesuuda d. Mr. Robert K. Mutai e. Mrs. Margaret M. Mukoba
Audit Committee	<ul style="list-style-type: none"> 1. Mr. Omar Kassim 2. CPA Isabella Kogei 3. Dr. Meshack Opwora/ Ms Margaret Iyasi Lesuuda 4. Ms. Mary W Mugo 5. Mrs. Margaret M. Mukoba
Human Resource	<ul style="list-style-type: none"> 1. Mrs. Margaret M. Mukoba 2. CPA Isabella Kogei 3. Dr. Meshack Opwora/ Ms Margaret Iyasi Lesuuda 4. Ms. Felicity Biriri 5. Ms. Mary W Mugo
Academic	<ul style="list-style-type: none"> 1. Ms Mary W. Mugo 2. CPA Isabella Kogei 3. Dr. Meshack Opwora/ Ms Margaret Iyasi Lesuuda 4. Mr. Robert K. Mutai 5. Mr. Omar Kassim

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MANAGEMENT TEAM

Management team that served during financial year 2017/18



The Vice Chancellor (up to March 6th, 2018)
PROF. JAPHET K. MAGAMBO, M.Sc. (Wales, UK), Ph.D.
(University of New Brunswick, Canada)



Deputy Vice Chancellor (Administration, Finance and Planning)

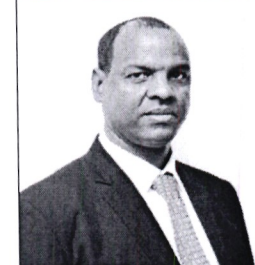
PROF. CHARITY W. GICHUKI, BVM. (UoN), Ph.D.
(Glasgow)

Acting Vice Chancellor from 6 March 2018 to 30 June 2018



Deputy Vice Chancellor (Academic, Research and Students Affairs)

PROF. GITONGA N. MBURUGU, B.Ed. (UoN), M.Sc.
(UoN), Ph.D. (University of Dundee, Scotland)



Ag. Deputy Vice Chancellor (Administration, Finance & Planning)

DR. GUYO SARR HUKA, B.Ed. (Egerton), MBA.
(Bangalore), Ph.D. (MKU)



Registrar (Administration and Planning)

DR. ELIJAH WALUBUKA, (MHRM), BA (Daystar), MBA
(Egerton), Ph.D. (Kabarak)

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Ag Registrar (Academic and Student Affairs)

DR. EUNICE MARETE, B.Sc. (JKUAT), M.Sc. (JKUAT)
Ph.D. (University College Dublin)



Deputy Registrar (Human Resources)

MS. EVELYNE K. GITONGA, MBA (KU)



Finance Officer

MR. NEPHAT NJERU, B. Com (KU), MBA(JKUAT), CPA(K)

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CHAIRMAN'S STATEMENT

This annual report reveals the great efforts the University made in the process of performing its core functions: training, research and public service in the Financial Year 2017/2018. On behalf of the University Council, I congratulate the Vice Chancellor and Management team, staff and students upon the achievements realized in the period. My special appreciation goes to Members of Council for the commitment and teamwork in steering this institution. The Council has continued to provide strategic oversight aligned to the University Vision - To be a world class university of excellence in science and technology.

We are aware that it is the quality of research and student experience that will allow us to achieve our vision as a world class university. What underpins all of this, is the quality and commitment of our staff. It is imperative that we continue to celebrate their success and to make the University a great place not only to study but to work. The University provides an environment that enables employees realize their full potential.

Pressure for job creation remains a top priority, as unemployment in our country is not a myth. During the year, the University released in the job market 1,135 graduates. Our graduates are well prepared to face the job market.

While several milestones were realized, the year was characterized by staff and student unrest whose effect was a closure of about six months during the year. We are cognizant that this put strain on operations and processes not only for the University but for all our stakeholders. We are glad that Government enhanced the salaries for staff which resolved staff issue. Council and Management will continue to engage students and their leadership in order to enhance harmony and reduce discontent among students.

Financing

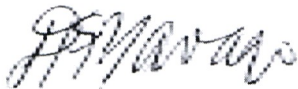
It is also important to recognize that the University is operating in a very challenging funding environment. During the year the Government made 95% cash cut in the capital budget for the University. The revenue budget allocation has also been declining over the years. That, coupled with increasing cost pressures, particularly for wage bill, invariably means we have to make efficiencies while also preserving the quality of the education we offer our students. In that context, our financial year end position should be viewed as a positive one achieved through stringent budget management. It is clear, however, that given the pressures on public funding in the medium to longer term we must work ever harder to increase and diversify our income streams to allow us to strengthen our competitive position and to continue to invest in the facilities and conditions that enable world class staff to inspire students to come here from all over the country.

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Executive Movement

A number of executive changes occurred during the course of 2017/2018. The contract for Prof. Japhet K Magambo as the first vice chancellor of the University expired in June 2018. Prof. Gichuki, the Deputy Vice Chancellor Administration, Finance and Planning (DVC AFP) was appointed as the acting Vice Chancellor in March 2018 while Prof. Magambo proceeded on terminal leave. Dr. Guyo Huka was appointed to act as the (DVC AFP). The Registrar Academic, Research and Student Affairs Prof. Peter Masinde was replaced by Dr. Eunice Marete on acting capacity in March 2018.

I am deeply grateful to the Council for its passionate stewardship, and the Senate for its academic wisdom. I am also grateful to the University Management Board, the Senate, the Deans Committee and the Students Organization of Meru University and staff unions for their partnership within, investment in and commitment to the University vision and mission and to our national goals for a far more inclusive, transformed, caring and responsive institution. Our progress has been made prominent by the continued passion and dedication of our Chancellor, Dr. James Mwangi, and also that of our Deputy Vice Chancellors, heads of academic schools and departments, student leaders, our staff and students.



PROF. DULACHA GALGALO BARAKO
CHAIRMAN OF COUNCIL

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REPORT OF THE VICE CHANCELLOR

I am pleased to present the annual report for the Financial Year 2017/2018. The year 2017/18 proved extraordinarily challenging with heightened and even violent students and staff protests dominating our higher education landscape. The students' protests were aimed at securing fee reductions while staff were agitating for pay increment. Consequently, learning did not take place between July 2017 and January 2018 in our University.

Financial Performance

During the Financial year, the University reported a deficit of Kshs. **127,648,222** as compared to a deficit of Kshs. **58,194,151** in FY 2016/17 as analysed below:

Income and expenditure

Details	2017-2018	2016-2017	2015-2016
	Kshs.	Kshs.	Kshs.
Total revenue	981,563,638	840,160,437	903,253,558
Less: Total expenses	1,109,211,861	898,354,589	817,413,227
Surplus / (Deficit)	(127,648,222)	(58,194,151)	85,840,331

The Total Income increased by 16%. The government grants increased by 39%. However, the income from tuition decreased by 32% while income from other income generating activities increased by 14%. The decrease in receipt from tuition fee was as a result of the strikes by academic staff and students which lasted for more than six months.

Total expenditure increased by 23% in the year. Personnel costs alone increased from Kshs. 574 million in FY 2016/17 to Kshs. 764 Million in FY 2017/18 or an increment of Kshs. 189 Million (33%) due to implementation of 2013-17 Collective Bargaining Agreement.

Teaching

The University's outstanding reputation for research, learning and teaching, and its investment in facilities is contributing to making the University an attractive choice for the best undergraduate and postgraduate students from across the country. The University's commitment to teaching and learning excellence has been demonstrated by the results of the 2018 admission by Kenya Universities and Colleges Central Placement Services with the University getting about 70% of the universities' declared available slots.

Research

The University continues to win competitive research grants and 2017/18 saw the University's highest ever research grants awards. Growth was particularly strong in multidisciplinary research areas and in large grants. This growth has been facilitated by recent investments in research facilities and the extensive capacity building among the academic staff.

Professional development

Professional development of our staff remains a key priority and the latest data from our Human Resources department shows that all our academic staff have at least a PhD or are finalizing their PhDs.

Student employability

In December 2017, a total of 1,135 students graduated and released into the labour market as compared to 1,270 students who graduated in the previous year. The university continues to work to increase student engagement in their future career and employment opportunities. The University has taken some initiatives to integrate employability and sustainability into the curriculum as features of good practice at the university. Work-based placement or attachments are part of the students' academic studies. The university offers career guidance and encourages students to seek workplace internships and volunteering opportunities.

Challenges

The University encountered a number of challenges during the year. Political debate around fees and funding is fierce and universities are easy scapegoats. The regular strikes by workers demanding pay increase and students demanding fee reduction have negatively affected the universities. The ballooning wage bills are technically unsustainable. After collective bargaining agreement between the unions and the government, universities are allocated money to pay arrears only. Subsequently, the government does not support the increased wage bill causing universities massive financial problems.

The number of students joining the parallel programmes in universities in Kenya has continued to decline. In the calendar year 2017, all the students who attained a C+ and above were absorbed by Kenya Universities and Colleges Central Placement Services (KUCCPS). The number that joined our university's parallel program during the year declined significantly.

The University is committed to implementing its strategic plan. However, it is forced to curtail its operation as a result of the reduced capitation. The University relies heavily on government funding with over 70% of the budget coming from the government.

Way Forward

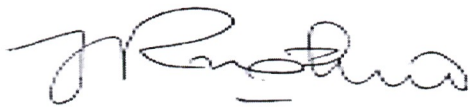
The above challenges have negatively impacted on the University performance. However, the University has taken actions to manage costs in order to improve the operating performance for the subsequent years.

In the financial year 2018/19, the University will focus its efforts on continuing the implementation of its strategic plan and transformation towards a world-class university of excellence in science and technology. The University will focus on excellent teaching staff, high quality teaching, physical and technological infrastructure, student experience, support provision, student retention and employability. Through judicious financial management, MUST will be able to maintain its high academic standards, while ensuring that critical infrastructure and academic projects and maintenance of existing assets are

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not compromised. The University will spend more than half a billion shillings on development in the financial year 2018/19. In order to attract more students, the University will also come up with a predictable university calendar, make efforts to curb student and staff unrest by engaging students and staff and their unions in dialogues. Staff development will also be given priority. MUST will diversify the sources of income and increase the allocation to research. We shall encourage public-private-partnerships in funding university education.

Credit is owed to our tremendous staff, students and alumni, and friends in government, industry, philanthropists at all levels of communities. I would like to thank all up-front, because the efforts you put enable MUST to make valuable contributions to society. The journey ahead may be increasingly difficult, but let us not be weary as difficult roads will often lead to beautiful destinations.



PROF. ROMANUS ODHIAMBO, Ph. D.
VICE CHANCELLOR

CORPORATE GOVERNANCE STATEMENT

The Council and Management are bound by the highest standards of integrity in carrying out their responsibilities and in the relationship of the University with stakeholders. The Council has overall responsibility for the management of the University. Decisions on operational matters are delegated to senior management and the Council receives presentations from the officers on specific issues.

The Council has four (4) scheduled meetings per annum.

Committees of the Council

The following are the committees of the council:

- i. Finance Committee
- ii. Audit Committee
- iii. Academic Committee
- iv. Human Resources Committee

Finance Committee

The Finance Committee is responsible for monitoring and advising Council on the financial health of the university, including the financial strategy, budget setting, annual accounts, investment activity, and consideration of capital expenditure. The Committee also has responsibility for monitoring institutional level Key Performance Indicators in order to measure and monitor university performance against agreed strategies and targets. The Committee also monitors and advises on the conduct of the university's estates/infrastructure activity including revenue and capital expenditure. The Committee may draw on professional expertise beyond that available within the Council membership.

Audit Committee (Gazette notice of April 2015)

The Audit Committee has responsibility for monitoring the effectiveness of the university's risk management, control and governance arrangements, along with the arrangements to promote economy, efficiency and effectiveness throughout the institution, and advises the Council accordingly. The Committee exercises oversight over internal audit arrangements. It considers internal audit reports and recommendations for the improvement of the university's systems of internal control, together with management's responses and implementation plans. The Committee also exercises oversight over external audit arrangements, such as the nature, scope and effectiveness of the process, and considers the audit aspects of the institution's financial statements.

Human Resources Committee

The Committee monitors and reviews the development and implementation of good governance practice. The Committee is responsible for the oversight of human resource strategy, policies and associated procedures including the use of performance and development systems, indicators and benchmarks.

Committees have four scheduled meetings in a year but meetings may be convened at other times as and when necessary.

Conflict of interest

The University has adopted a conflict of interest policy which applies to the Council, Management and Staff. All persons governed by the policy are under the obligation to avoid and disclose ethical, legal,

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financial, or other conflicts of interest involving the University, and remove themselves from a position of decision-making authority with respect to any conflict situation involving the University. Any person who has a material personal interest in a particular matter and who is able to influence the decision will not vote on the matter when it is being discussed or considered.

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

The University's operational and financial performance

REVENUE

Government grants

The major source of the University revenue is the government. During the FY 2017/18, the University received a total of Kshs. 767 Million from the government for the recurrent expenditure or 78% of total income. This amount was inclusive of Kshs. 98 million for payment of salary and house allowance arrears arising out of the Collective Bargaining Agreement for the period 2013/2017.

Table 1: sources of revenue

	2017-2018	
	Kshs.	percentage
Government Grants	766,864,780	78%
Appropriation in Aid		
Tuition and other Fees	176,446,022	18%
Other Income	37,861,013	4%
Total Appropriation in Aid	214,307,035	22%
Total revenue	981,563,638	

The revenue from Tuition Fees was Kshs. 176,446,022 or 18% of the total revenue, while other income generating activities raised Kshs. 37,861,013 or 4% of total revenues.

Table 2: Government Grants

	2017-2018	2016-2017	2015-2016
	Kshs.	Kshs.	Kshs.
Government Grants	668,864,780	553,088,149	553,088,071
Add: Funds for arrears	98,000,000	-	-
	766,864,780	553,088,149	553,088,071

Besides the amount received for the payment of arrears, the University received an increment in government grants of Kshs. 115 million or 21% increment. The grants increased from Kshs. 553 million to Kshs. 669 million.

Appropriation in Aid

The semester dates for the Financial year and academic year 2017/18 were interrupted by staff and students' strike. All academic staff in public universities had downed their tools demanding for salary and house allowance increments. Students also went on strike demanding for fees reduction. No meaningful teaching took place between July 2017 and January 2018. The first semester of the year started in August 2017 and ended in April 2018. Despite the prolonged semester, the students paid the fees for a semester. Further, the annual fees were reduced by about Kshs. 5,000 per student.

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The result of the strikes was a decline in revenue from tuition fee by 32% from the previous year. Compared to the FY 2015/16, the decline was 45%. Revenue from Tuition and Other Fees also declined as a result of fewer students joining the parallel programs. The number is unlikely to increase in the near future. The issue of low numbers of students joining the universities is being experienced nationally.

To respond more effectively to the 2017/18 student protests, the University management shifted its leadership approach of the previous years from a focus primarily on the protection of staff and property and on the non-disruption of the academic programme, to include the active and sustained engagement of our students, staff, parents and alumni on the critical issues of advancing towards quality university education. At the same time, the University management continued its efforts to protect staff and property and to avoid disruption of the academic programme, which consumed significant investment of time, effort and financial resources.

Table 3: Appropriation in Aid

	2017-2018	2016-2017	2015-2016
Appropriation in Aid	Kshs.	Kshs.	Kshs.
Tuition and other Fees	176,446,022	258,942,829	322,785,401
Other Income	37,861,013	28,129,459	27,380,087
Total Appropriation in Aid	214,307,035	287,072,288	350,165,487

Income from other income generating activities increased by about Kshs 4 million or 14%.

EXPENSES

	2017-2018	2016-2017	2015-2016	2017-2018	
				Increment	
Expenses	Kshs.	Kshs.	Kshs.	Kshs	%
Operational Expenses					
a) Personnel Emoluments	763,530,192	574,687,065	534,727,252	188,843,127	33%
b) Maintenance Costs	33,441,180	17,512,157	16,821,944	15,929,023	91%
c) Council Expenses	16,929,485	9,529,553	9,557,310	7,399,932	78%
d) Other Operational Expenses	157,205,636	131,794,240	131,878,072	25,411,396	19%
Total Operational Expenses	971,106,493	733,523,014	692,984,578	237,583,479	32%
Academic Costs	44,103,038	36,313,551	27,801,568	7,789,487	21%
Administration Costs	24,421,000	15,244,381	13,614,750	9,176,619	60%
Student Welfare	12,952,166	24,425,622	15,402,929	-11,473,456	-47%
Depreciation	55,865,527	88,848,021	67,609,403	-32,982,494	-37%
Total expenses	1,108,448,224	898,354,589	817,413,227	210,093,635	23%

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Operational expenses

During the year, the University paid basic salary and house allowance arrears amounting to Kshs 98 million awarded to staff after a successful collective bargaining agreement (CBA) for the period 2013/2017. Further, in the FY 2017/18, the staff were paid using the negotiated salary and house allowance rates hence the huge increase in expenditure from the previous year.

While students were away, the University seized the opportunity to carry out extensive repair and maintenance of the university properties – buildings, roads, equipment, furniture and the grounds hence the sharp increase in maintenance expenditure by 77% from previous year.

Council expenditure increased by 78% from the previous year as a result of more meetings held by the new Council including executive change and crisis management.

Student Welfare

The expenditure on student welfare decreased by 49% because students were away from the university most part of the year. They did not participate in sports competitions with other universities.

DEFICIT

The University reported a deficit of Kshs. 127 Million or a 119% increment from previous year. The situation was made worse by the loss of a semester as a result of the students and staff strikes.

	2017-2018	2016-2017	2015-2016	2017-2018	
				Increment	
	Kshs.	Kshs. M	Kshs. M	Kshs. M	%
Surplus / (Deficit)	(127)	(58)	85	(74)	126%

The University is wary about future financial sustainability considering that it has reported a deficit for the second year running. If the trend continues, the university will suffer technical insolvency. The University will avoid going into technical insolvency by diversifying income generated internally and managing cost so that marginal cost is equivalent to or less than the marginal revenue.

● **Increase Revenue**

The University will venture into other sources of revenue generation. Other than government grants and fees from students, the University will explore other income generating activities.

● **Manage Cost**

The University Management will institute cost management strategies. The Management will ensure that wastages are eliminated and efficiency is increased. We shall embrace innovation and automation in our operations. Further, we shall benchmark with the best universities or other organizations in order to adopt the best practices in our operations.

All decisions will be made prudently. When making decisions, the financial implications of the decisions will be considered. We shall focus on consolidating what we already have instead of

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starting new projects, departments or faculties. We shall merge roles where they have been duplicated. We shall strictly adhere to the budget allocations.

CAPITAL EXPENDITURE

The Council plans to transform the University into a modern, sustainable learning and working environment that is innovative and engaging for both staff and students. The University will spend a total of Kshs 500 million on capital expenditure in the next financial year and a total of Kshs. 20 billion is planned over the next 10 years.

The development grants from the government have declined significantly over the years.

SECTION B

The University's compliance with statutory requirements

The University complied with all statutory requirements. The University withheld taxes where it was required to do so. All withheld taxes, payroll deductions-NHIF, NSSF, PAYE, Pension and other deductions were paid fully and on time.

SECTION C

Key projects and investment decisions the University is planning/implementing

The University is undertaking the following major projects:

No	Project	Project cost	Budget		Remarks
			2018/2019		
1	Perimeter Wall Phase 1	30,000,000	20,000,000		A in A
2	Sewerage System	120,000,000	84,500,000		GOK
3	Water Reservoir and distribution	80,000,000	50,000,000		GOK
4	Construction of Sports fields	95,000,000	50,000,000		GOK
5	Construction of Foundry	4,297,927	3,000,000		A in A
6	Engineering Complex Phase 2	474,572,603	100,130,000		GOK
7	ICT Infrastructure	60,000,000	40,000,000		A in A
8	Procurement Building	6,710,260	2,000,000		GOK
9	Nursing Multi-Specialty Laboratory	6,500,000	6,500,000		A in A
10	Animal Health Laboratory	4,500,000	4,500,000		A in A
11	Nursing and Health Science Building	200,000,000		-	
	Subtotal - Buildings		360,630,000		
12	Other Equipment and Machinery		12,000,000		A in A
14	CCTV		6,000,000		A in A
15	Laboratory Equipment		20,000,000		A in A
16	Soft-wares		6,000,000		A in A

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17	Biometric System		2,000,000	A in A
18	Furniture, Fixtures, and Fittings		20,000,000	A in A
19	Computers		25,000,000	A in A
20	Biological Assets		2,500,000	A in A
			93,500,000	
	TOTAL CAPITAL BUDGET		454,130,000	
	SOURCES OF FUNDS FOR CAPITAL BUDGET:			
	A in A Savings		169,500,000	
	GoK -Development		284,630,000	
	TOTAL FUNDS		454,130,000	

SECTION D

Major risks facing the University

Operational risks

The University is located in a water deficient region. Most of the water consumed in the University comes from boreholes. Water supplied by Meru Water and Sanitation Ltd would help in increasing the water supply, but it requires an investment of over Kshs. 80 million. Limited water supply brings about health concerns.

The Government and the public universities staff unions concluded a Collective Bargaining Agreement (CBA) which gave the employees a basic salary increment of 17% and house allowance of 3 %. The budget allocation for the Financial year 2017/18 for Meru University of Science and Technology had already been done before the agreement. Therefore, the increment was not factored in the budget. The government provided funds for arrears accumulated up to June 2017. The university is likely to experience financial problems due to the additional wage burden if the government does not increase the capitation in subsequent years to match the increment.

Just like in any other establishment in Kenya, the risk of terrorism is real. The University has invested heavily in a bid to mitigate against the risk by installing a biometric system, CCTV cameras in sensitive places, security men at the entrance of major buildings and having armed security men in the university for 24 hours a day. Even with these measures, the University perimeter fence (diameter of 7.5 km) is poorly fenced (chain link). It is possible for an individual to cut through chain link and entre the compound from any direction. The solution is a stone fence. The University has budgeted for a stone fence in the next financial year.

The number of students joining the university under the parallel programme has been declining year after year. The parallel programme is a major source of revenue for the University. Financial

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sustainability of the University is therefore under threat. The University is investing heavily on facilities and other resources and has also stepped up the promotion of its programs in order to attract as many students as possible.

SECTION E

Material arrears in statutory/financial obligations

The University did not have any material financial obligation during the year.

SECTION F

The University's financial probity and serious governance issues

There were no financial improbity reported during the year.

No governance issues were reported during the year.

**CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY
REPORTING**

Environmental conservation

The process of environmental conservation in the University is a continuous one. The University holds several tree planting events annually. On 22nd November, 2017, the University staff, students and the surrounding community participated in a tree planting exercise where 2,500 trees were planted. In April 2018, 700 tree seedlings were planted within the University. The University also conducted cleaning exercises at Nchiru Market and other surrounding shopping centres. The local community was involved in the exercises which served as examples of environmental conservation.



Students and staff planting trees on 17 November 2017



Tree planting exercise by University staff in April

Sports promotion

The University promotes various sporting activities which include football, baseball, roll-ball, netball, basketball, rugby, and chess. The University students actively participate in competitive activities. MUST prides itself as being the only institution in Kenya with a standard baseball diamond. There are only two (2) standard baseball diamonds in Eastern Africa.-one is in the University and the other one is in Kampala, Uganda. This is towards an effort of making MUST the home of baseball in the country. International and national competitions are held on this baseball diamond.

In addition, MUST allow the neighbouring primary schools to use its sports fields.



A base-ball game

Health care

MUST has a health centre that provides medical services to its staff and students. At times, the University extends these medical services to the neighbouring community. In April 2018, MUST extended immunization services and nutritional follow-ups to children aged five (5) years and below to the University fraternity and neighbouring community free-of-charge. The University also offered free prostate cancer screening to staff and the neighbouring community. In addition, during the Meru National Agriculture Society of Kenya show in June 2018, the School of Agriculture and Food Science took anthropometric measurements free-of-charge to the show-goers who visited the MUST stand and also provided nutritional advice to them.



A staff taking anthropometric measurements from a member of the community

Staff Training and development

Meru University of Science and Technology (MUST) recognizes the importance of training and developing its staff and understands that its employees are key to its success. The University, therefore, encourages its staff to continually improving their skills and abilities both through on-the-job and off-the-job training. MUST acknowledges that training and development of staff provides benefits employees in terms of their overall career and prospects for advancement. A staff training policy is in place to guide the Human Resource function. The University Management enjoys a good work relation with all the staff unions.

High light mast

The University has installed a high light mast to light the neighbouring community. The major roads are well lit to enhance security.

Water and sanitation initiatives

The University is constructing sewer ponds to be connected not just to the University buildings but also to serve the community around the University.

Training of boda boda riders

The University has and continues to provide training on entrepreneurship and book keeping to the boda boda riders around the university.

Prevention of HIV and AIDS

The University through its HIV/AIDS prevention committee provides free counselling and testing to the community, students and staff.

Other Community Participation

MUST engages in charitable activities such as blood donation drives as well as giving donations such as foodstuff and cleaning materials to children's homes. The University management meets regularly with representatives from local communities and associations. Topics encompass regional engagement with University activities and areas of common interest.

Meru University of Science and Technology
Reports and Financial Statements
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REPORT OF THE COUNCIL

The University Council submits its report together with the audited financial statements for the year ended June 30, 2018 which show the state of the University's affairs.

Principal activities

The principal activities of the University continue to be provision and advancement of university education and training to appropriately qualified candidates leading to the conferment of degrees and award of diplomas and certificates and such other qualifications as the Council and the Senate may from time to time determine and in so doing, contribute to labour market needs.

Results

The financial performance results of the University for the Year ended June 30, 2018 are set out on page 1.

University Council

The members of the University Council who served during the year are shown on pages v to vii.

Auditors

The Auditor General is responsible for the statutory audit of MUST in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General carried out the audit of the University for the year ended June 30, 2018 as per the Constitution.

By Order of the Council



Prof. Romanus Odhiambo
Council Secretary/ Vice Chancellor
Date: November 27, 2018

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STATEMENT OF COUNCIL'S RESPONSIBILITIES

Section 81 of the Public Finance Management (PFM) Act, 2012 and section 14 of the State Corporations Act, require the University Council to prepare financial statements in respect of that University, which give a true and fair view of the state of affairs of the University at the end of the financial year/period and the operating results of the University for that year/period. The University Council is also required to ensure that the University keeps proper accounting records which disclose with reasonable accuracy the financial position of the University. The University Council is also responsible for safeguarding the assets of the University.

The University Council is responsible for the preparation and presentation of the University's financial statements, which give a true and fair view of the state of affairs of the University for and as at the end of the financial year ended on June 30, 2018. This responsibility includes:

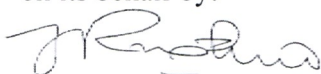
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the University;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the University;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The University Council accepts responsibility for the University's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public-Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The University Council is of the opinion that the University's financial statements give a true and fair view of the state of University's transactions during the financial year ended June 30, 2018, and of the University's financial position as at that date. The University Council further confirms the completeness of the accounting records maintained by the University, which have been relied upon in the preparation of the University's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the University Council to indicate that the University will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The University's financial statements were approved by the Council on September 27, 2018 and signed on its behalf by:



Vice Chancellor



Chairman



Council Member

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru University of Science and Technology set out on pages 1 to 38, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Meru University of Science and Technology as at 30 June 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Universities Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracy in the financial statements

1.1 Cash and bank balances

Note 12 to the financial statement reflected Kshs.409,488,892 in respect to cash and bank balances which included Kshs.27,799,961 in respect to Treasury Bills balance with the Central Bank of Kenya and whose reconciliation statement was not availed for audit review. In addition, the certificate of balance from the Central Bank of Kenya on Treasury Bills balance reflected a balance of Kshs.28,000,000 resulting in unreconciled variance of Kshs.200,039 between the financial statements and the certificate of balance.

In the circumstances, the accuracy of cash and bank balance of Kshs.409,488,892 reflected in the financial statements as at 30 June 2018 could not be confirmed.

Report of the Auditor-General on the Financial Statements of Meru University of Science and Technology for the year ended 30 June 2018

2.0 Property, Plant and Equipment

2.1 Construction of an Engineering Tuition Block

The previous year's audit report indicates that Kshs.474,896,783 was spent in respect to the construction of an Engineering Tuition Block as at 30 June 2017. The financial statements for the year under review reflects a balance of Kshs.1,880,916,585 in respect to property, plant and equipment balance of as at 30 June 2018. However, other than an addendum dated 28 January 2015 extending the construction contract period from 2013 to 2020 and Kshs.38,070,664 comprising of three interim certificates amounting to Kshs.31,767,070 and three payments to consultants amounting to Kshs.6,303,594, no other documents was availed for audit review to confirm the total cost incurred during the year, the overall completion level and cost of the project as at 30 June 2018.

In the circumstances, it was not possible to ascertain how much has been spent in respect to the construction of the engineering tuition block including where there is a respective value for money.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Meru University of Science and Technology in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected budgeted revenue of Kshs.870,685,117 and actual revenue of Kshs.982,563,833 resulting to excess revenue of Kshs.111,878,716 as shown below: -

Summarized Revenue Analysis				
	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Over %
Grants in Aid	668,006,384	766,864,780	98,858,396	13%
Tuition and other Fees	169,427,346	176,446,022	7,018,676	4%
Other Income	33,251,387	39,253,031	6,001,644	15%
Total income	870,685,117	982,563,833	111,878,716	11%

The University over-realized the budget by Kshs.111,878,716 which may be an indication of under budgeting. Therefore, there is need for the management to review its budgeting mechanism with a view to coming up with own appropriate revenue budget which will grow revenue base of the University.

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected a budgeted expenditure of Kshs.1,109,924,377 and actual expenditure of Kshs.1,109,211,861 resulting to an under-expenditure of Kshs.20,776,112 on six items and an over-expenditure of Kshs.20,063,595 on two items as follows;

Summarized Expenditure Analysis					
Operational Expenses	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Under (Kshs)	% over
a) Personnel Emoluments	766,763,110	763,530,192		(3,232,918)	-0.42%
b) Maintenance Costs	31,112,964	33,441,180	2,328,216		7.48%
c) Council Expenses	17,117,391	16,929,485		(187,906)	-1.10%
d) Other Operational Expenses	165,138,357	157,969,273		(7,169,085)	-4.34%
Academic Costs	51,319,903	44,103,038		(7,216,865)	14.06%
Administration Costs	25,366,490	24,421,000		(945,490)	-3.73%
Student Welfare	14,976,014	12,952,166		(2,023,848)	-
Depreciation	38,130,148	55,865,527	17,735,379		46.51%
Total expenses	1,109,924,377	1,109,211,861	20,063,595	(20,776,112)	16.83%

The University under spent by Kshs.20,776,112 of the total budget projection which translated to equivalent services denied to the students and staff. Further, the Kshs.20,063,595 over-expenditure on two items during the year had no budgetary approval. There is need for the management to adopt a realistic budget to avoid instances of excess or under budgeting for efficient and effective delivery of goods and services to the University stakeholders.

2.0 Financial Performance

The University incurred a deficit of Kshs.126,648,027 (2017 deficit Kshs.58,194,151) for the year under review. The deficit resulted to increase in negative reserve fund from Kshs.68,631,601 as at 30 June 2017 to Kshs.190,299,574 as at 30 June 2018 and as reflected in the statement of financial position for the same year.

If strategies are not put in place urgently to reverse the trend the University is likely to face financial challenges in the near future.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for conclusion

1.0 Irregularities in Procurement of Library Books

Note 7(d) to the financial statement reflected Kshs.155,542,311 in respect to other operation expenses which included Kshs.18,308,299 in respect to library expenses incurred on library books procured through a tender awarded to a firm on 18 December 2017. However, the tender adverts were not availed for audit verification and the tender opening committee and evaluation committee members did not initialize each page of the minutes contrary to Section 78 (11) and 83(3) of the Public Procurement and Assets Disposal (PPAD) Act, 2015 which requires each member of the tender opening committee and evaluation committee to initial each page of the tender opening minutes and evaluation reports respectively to acknowledge there are true reflection of the proceedings held. Further, the tender opening register was not maintained in contravention of Section 78 (6) of the Public Procurement and Asset Disposal Act, 2015 which states that as each tender is opened, the name of person submitting the tender and the total price shall be read out loud and recorded in a document to be called the tender opening register and that the tender opening committee did not record the number of pages received per every tender document as per the Law. In addition, some members appointed for tender opening did not sign each tender document contrary to Section 78 (9) of PPADA, 2015 which states that each member of the tender opening committee shall sign each tender on one or more pages as determined by the tender opening committee and, the signed contract agreement between Meru University of Science and Technology and the firm was not produced for audit verifications.

In the circumstances, the University was in breach of the law and the value for money for Kshs.18,308,299 in respect to library expenses could not be confirmed.

2.0 Irregularities in the Procurement Process of Computer Software

Note 7(b) to the financial statement reflected Kshs.33,441,180 in respect to maintenance cost which included Kshs.4,750,280 in respect to computer software maintenance which further included Kshs.2,820,800 procured through quotation which was awarded to a firm on 31 July 2017. However, the procurement was irregularly done through request for quotation instead of open tender even though it exceeded Kshs.1,500,000 threshold for request for quotation and the quotations were opened and evaluated by two committee members in contravention of Section 46(4) (b) of the Public Procurement and Asset Disposal Act, 2015 which states that the committee should consist between three and five members. Further, the accounting officer did not appoint an adhoc evaluation committee contrary to Section 46 (1) of PPAD, 2015 which states that Accounting officer shall ensure that an adhoc evaluation committee is established from within the members of staff, with the relevant expertise and the notification of award to the winning bidder and letter of acceptance from the winning bidder were not produced for audit verifications.

In the circumstances, the University was in breach of law and the value for money for Kshs.2,820,800 in respect to computer software and maintenance could not be confirmed.

3.0 Management of Human Resources

3.1 Staff Performance Appraisal

A review of senior management and other staff member's files revealed that the University did not undertake staff appraisal in the financial year under review contrary to Section G (6) of Public Service Commission Human Resource Policies and Procedures Manual of 2016, which says the Staff Performance Appraisal System (SPAS) shall apply to all categories of staff in the Public Service.

In the circumstances, the University violated the policy on the staff management.

3.2 Ethnic Balance

The University staff establishment at the time of audit in November 2018 showed that one community was 63.03 % of the total employed staff contrary to Section 7 (1) (2) of the National Cohesion and Integration Act, 2008 (Revised 2012) which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, the University is in breach of the law.

3.3 Irregularities on Deduction of Wages

Note 7 (a) to the financial statements reflected Kshs.363,350,494 in respect to basic salary which included Kshs.4,241,800 in respect to net basic salary paid to staff whose computation of one- third (1/3) of their salary indicated that they should have been paid a net of Kshs.6,128,837 in the year under review resulting to an over deduction of Kshs.1,887,037 in respect to net basic salary deducted above two- third (2/3) contrary to Section 19(3)of the Employment Act 2007 which states that the total amount of deductions from the wages of an employee shall not exceed one third (1/3) of such wages.

In the circumstances, the University acted contrary to the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

1 Information, Communication and Technology (ICT) Environment

Review of the University's ICT environment revealed that there was no formal approved ICT policy in place as at 30 June 2018 which ought to have included data security policy and disaster recovery plans. Further, the ICT organization structure was not provided for audit review.

In the circumstances, the integrity, security and reliability of the University's financial data including its Management Information System could not be ascertained as at 30 June 2018.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the

audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the University's or to cease operations, or have no realistic alternative but to do so. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective way.

Those charged with governance are responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the University's policies and procedures may deteriorate.

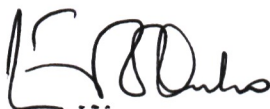
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease as a going concern or to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the University to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

8 February 2019

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017-2018 Kshs.	2016-2017 Kshs.
Revenue from non-exchange transactions			
Grants in Aid	3	766,864,780	553,088,149
Donations and Gifts	4	391,823	450,000
		<u>767,256,603</u>	<u>553,538,149</u>
Revenue from exchange transactions			
Tuition and other Fees	5	176,446,022	258,942,829
Other Income	6	37,861,013	27,679,459
		<u>214,307,035</u>	<u>286,622,288</u>
Total revenue		<u>981,563,638</u>	<u>840,160,437</u>
Expenses			
Operational Expenses	7	971,870,129	733,523,014
Academic Costs	8	44,103,038	36,313,551
Administration Costs	9	24,421,000	15,244,381
Student Welfare	10	12,952,166	24,425,622
Depreciation	11	55,865,527	88,848,021
Total expenses		<u>1,109,211,861</u>	<u>898,354,589</u>
Deficit		<u>(127,648,222)</u>	<u>(58,194,151)</u>

The notes set out on pages 6 to 31 form an integral part of these Financial Statements

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2017-2018	2016-2017
Assets			
Current Assets			
		Kshs	Kshs
Cash and cash equivalents	12	408,488,697	481,927,892
Prepayments	13	6,855,954	15,234,678
Receivables from exchange transactions	14	57,389,147	18,844,383
Inventory	15	8,260,554	6,902,806
		<u>480,994,352</u>	<u>522,909,759</u>
Non-current assets			
Property, plant and equipment	16	1,880,916,585	1,660,240,417
Biological Assets	17	1,938,725	800,400
Intangible Asset (ERP)	18	17,381,324	20,278,211
		<u>1,900,236,634</u>	<u>1,681,319,028</u>
Total assets		<u>2,381,230,986</u>	<u>2,204,228,788</u>
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	19	166,448,575	141,387,391
Provisions	20	52,535,375	45,643,500
Deferred Income	21	54,515,471	-
Total liabilities		<u>273,499,421</u>	<u>187,030,891</u>
Net assets		<u>2,107,731,565</u>	<u>2,017,197,897</u>
Capital	22	2,272,768,397	2,070,060,703
Reserve Fund	23	(191,299,769)	(68,631,601)
Revaluation Reserve	24	26,262,937	15,768,795
Total net assets and liabilities		<u>2,107,731,565</u>	<u>2,017,197,897</u>

The Financial Statements set out on pages 1 to 5 were signed on behalf of the University Council by:



Prof. Romanus Odhiambo
Vice Chancellor
Date: November 27, 2018



CPA Nephath Njeru
Member No. 7145
Finance Officer
Date: November 27, 2018



Prof. Dulacha Galgalo Barako
Chairman of the Council
Date: November 27, 2018

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2018

Details	Capital	Revaluation Reserve	Revenue Reserve	Total
Balance as at 1 July 2016	1,888,700,085	23,720,440	(18,439,095)	1,893,981,430
Development Grants	181,360,618	-	-	181,360,618
Prior Year Adjustment			50,000	50,000
Surplus	-	-	(58,194,151)	(58,194,151)
Depreciation	-	(7,951,645)	7,951,645	-
Balance as at 30 June 2017	2,070,060,703	15,768,795	(68,631,601)	2,017,197,897
Add: Revaluation Surplus		16,351,313		16,351,313
Less: Revaluation Loss		(877,116)		(877,116)
Development Grants	13,356,900	-	-	13,356,900
ADB Equip Donation	189,350,794			189,350,794
Deficit	-	-	(127,648,222)	(127,648,222)
Depreciation	-	-4,980,055	4,980,055	-
Balance as at 30 June 2018	2,272,768,397	26,262,937	(191,299,769)	2,107,731,565

Revenue Reserve

Revenue reserve is the accumulated surpluses/deficits made by the University over the years.

Capital

Capital is composed of:

- The assets inherited from Meru College of Technology in July 2009 less liabilities as at that time.
- The accumulated development funds from the Government of Kenya or other external donors since the financial year 2008/09.

Revaluation Reserve

Revaluation reserve was created in the financial year 2014/2015 when the computers and motor vehicles were revalued. Subsequently, depreciation of computers and motor vehicles is charged to this account until it is fully exhausted.

Excess Depreciation due to Revaluation: This is the amount transferred from Revaluation Surplus to Revenue Reserve. The amount is computed as follows:

Details	Amount	Rate	Excess Depreciation due to Revaluation
Revaluation Surplus -Motor Vehicles	24,900,274	20%	4,980,055

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF CASH FLOWS
AS AT 30 JUNE 2018

	NOTE	2017/18 KSHS.	2016/17 KSHS.
Surplus for the year		(127,648,222)	(58,194,151)
Adjustment for :			
(Gain)/ Loss on Revaluation of biological asset	17	343,900	(75,600)
Depreciation Charge	10	55,865,527	88,848,021
Operating surplus before working capital changes		<u>(71,438,795)</u>	<u>30,578,270</u>
Decrease(increase) in Debtors		(30,166,040)	25,925,116
Decrease(increase) in Stocks		(1,357,748)	(2,358,372)
Increase(Decrease) in Creditors		86,468,530	(13,176,738)
		<u>54,944,742</u>	<u>10,390,006</u>
Net cash generated from Operating Activities		<u>(16,494,053)</u>	<u>40,968,275</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Buildings	16	(905,100)	-
Work In Progress	16	(50,430,421)	(79,521,361)
Furniture & Fittings	16	(9,317,283)	(12,929,665)
Computers	16	(2,803,775)	(3,248,478)
ERP		-	-
Motor Vehicle		-	(13,721,440)
Machinery & Equipment	16	(5,363,238)	(5,138,835)
Biological Assets	17	(1,482,225)	-
Net cash flows from investing Activities		<u>(70,302,042)</u>	<u>(114,559,779)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Grants allocated to Finance Capital Fund	22	<u>13,356,900</u>	<u>181,360,618</u>
Net Increase (Decrease) in cash and cash equivalents		<u>(73,439,195)</u>	<u>107,769,114</u>
Cash and cash equivalents at beginning of year		481,927,892	374,158,778
Cash and cash equivalents at end of year	12	<u>408,488,697</u>	<u>481,927,892</u>

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2018

	Original budget 2017-2018 Kshs	Adjustments 2017-2018 Kshs	Final budget 2017-2018 Kshs	Actual on comparable basis 2017-2018 Kshs	Performance difference 2017-2018 Kshs	Remarks %
Revenue						
Grants in Aid	614,006,384	54,000,000	668,006,384	766,864,780	98,858,396	15% a
Tuition and other Fees	285,416,346	(115,989,000)	169,427,346	176,446,022	7,018,676	4%
Other Income	30,448,337	2,803,050	33,251,387	38,252,836	5,001,449.26	15%
Total income	929,871,067	(59,185,950)	870,685,117	981,563,638	(110,878,521)	13%
Expenses						
Operational Expenses						
a) Personnel Emoluments	655,965,685	110,797,425	766,763,110	763,530,192	(3,232,918)	0%
b) Maintenance Costs	22,343,668	8,769,296	31,112,964	33,441,180	2,328,216	7%
c) Council Expenses	10,000,000	7,117,391	17,117,391	16,929,485	(187,906)	-1%
d) Other Operational Expenses	160,849,389	4,288,968	165,138,357	157,969,273	(7,169,085)	-4%
Academic Costs	66,542,246	(16,000,000)	51,319,903	44,103,038	(7,216,865)	14% b
Administration Costs	17,331,490	(12,300,000)	25,366,490	24,421,000	(945,490)	-4%
Student Welfare	18,708,531	(16,615,800)	14,976,014	12,952,166	(2,023,848)	14% c
Depreciation	38,130,148	-	38,130,148	55,865,527	17,735,379	47% d
Total expenses	989,871,157	86,057,280	1,109,924,377	1,109,211,861	(712,517)	0%
	(60,000,090)	(145,243,230)	(239,239,260)	(127,648,222)	(111,591,038)	

NOTES

The statement has been prepared using the adjusted budget.

- a) **Grant in aid:** the University received Kshs.99 million during the year to cater for 2013/17 CBA arrears.
- b) **Academic costs:** Many of the planned activities were not undertaken as a result of the students being away from the University.
- c) **Student Welfare Costs:** Activities such as inter-university games planned for the quarter were not undertaken due to the absence of the students.
- d) **Depreciation:** Although the variance is at 47%, the University was carrying out valuation of assets but two classes of non-current asset namely: motor vehicle and buildings were not revalued.

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

The University is established by and derives its authority and accountability from University Act 2012. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The entity's financial statements have been prepared in accordance with and comply with International Public-Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

ADOPTION OF NEW AND REVISED STANDARDS

Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. This operates individual retirement benefit scheme and therefore this standard is not applicable.

New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.
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Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from non-exchange transactions – IPSAS 23

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the University and can be measured reliably.

Government Grants and Assistance

Financial assistance provided by the Government is recognised in the year it was received or when the entitlement for the revenue is established. Most of the government grants and assistance received are considered to be contributions. A contribution occurs when the University receives an asset without having to give equal value to the other party / parties of the transfer. If the consideration received is in the form of a contribution, the income is to be recognised as revenue when all of the following conditions have been satisfied:

The University obtains control of the contribution or the right to receive the contribution;
It is probable that the contribution will flow to the University; and
The amount of the contribution can be reliably measured.

Income is therefore, only recognised when the University has control over the contribution, which is usually achieved through receipt or when entitlement for the revenue is established. If the government contributions are received with conditions attached, and contributions have to be refunded if the conditions are not met, then revenue should not be recognised until all of those conditions are met and treated as income in advance or monies held from the government.

Revenue from exchange transactions – IPSAS 9

The University recognises revenue arising from the following transactions and events:

Student fees and charges;
The rendering of services; and
Other revenue.

Measurement of Revenue

Revenue is measured at the fair value of the consideration received or receivable, where in most cases, the consideration is in the form of cash or cash equivalents.

Recognition of Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the University and specific criteria have been met for each of the following activities as described below.

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Student Fees and Charges

Student fees and charges are recognised as revenue in the year which the service is provided to students. Student fees and charges received that relate to the service to be rendered in the future period are treated as income in advance.

Rendering of Services

Revenue recognition based on contracts to provide services require income to be recognised in stages of completion often as a percentage of services performed to the total of services to be provided as stipulated in the contract. Revenue associated with the sale of services is recognised by reference to the stage of completion of the transaction at the reporting date when the outcome of a transaction involving the rendering of services can be estimated reliably. The outcome of a transaction can be estimated reliably when all of the following conditions are satisfied:

- i. The amount of revenue can be measured reliably;
- ii. It is probable that the economic benefits associated with the transaction will flow to the University;
- iii. The stage of completion of the transaction at the reporting date can be measured reliably; and
- iv. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the University. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Other Revenue

Other revenue represents miscellaneous income and other grant income not derived from core business and is recognised when it is earned.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the University. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the University recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the

carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The University determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Impairment of financial assets

The University assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or a University of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the University of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors are experiencing significant financial difficulty
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

e) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. After initial recognition, inventory is measured at the lower of cost and net realizable value.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the University.

f) Provisions – IPSAS 19

Provisions are recognized when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The University does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

g) Nature and purpose of reserves

The University creates and maintains reserves in terms of specific requirements. The University has one reserve namely Revenue Reserve.

Revenue Reserve is composed of accumulated surplus or deficits.

Capital is composed of the following:

- Value of non-current assets as at 30 June 2009,
- Development grants received from the government from July 2009 to date, and
- Transfers from Revenue Reserve. Capital expenditure over and above the development grants from the Government is financed by the Revenue Reserve.

h) Changes in accounting policies and estimates – IPSAS 3

The University recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

i) Employee benefits – IPSAS 25

Retirement benefit plans: The University provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the University pays fixed contributions into a separate University Pension Scheme (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The

contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

j) Related parties – IPSAS 20

The University regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the University, or vice versa. Members of key management are regarded as related parties and comprise the Chancellor, the Council members, the Vice Chancellor, the Deputy Vice Chancellors, and senior managers.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank and also call accounts.

l) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

m) Subsequent events – IPSAS 14

The University adjusts the financial statement for events after the reporting date together with the appropriate disclosures. The University adjusts the amount recognised in its financial statement to reflect the adjusting events after reporting date. Some examples of adjusting events include:

- i) Settlement after the reporting date of a court case
- ii) The receipt of information after reporting date indicating that an asset was impaired at the reporting date
- iii) Determination after reporting date of the cost of an asset purchased before reporting date
- iv) Discovery of fraud or errors that show that the financial statements were incorrect.

n) Biological Asset – IPSAS 27

The university biological assets are measured on initial recognition and at each reporting date at their fair value less costs to sell, except for the case where the fair value cannot be measured reliably.

**1. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY–
IPSAS 1**

The preparation of the University's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The University based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the University. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the University
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

The following are the estimated useful lives of the various assets:

Details	Rate of depreciation	Life
Buildings	4%	25 years
Furniture & Fittings	10%	10 years
Computers	20%	5 years
Motor Vehicles	20%	5 years
Machinery & Equipment	10%	10 years
Biological Asset	Not depreciated	
Work in Progress	Not depreciated	
Land	Not depreciated	

It is the policy of the University to charge full year's depreciation on the year of purchase and nil depreciation on the year of disposal.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

2. POLICY ON BIOLOGICAL ASSETS

The University recognises a biological asset or agricultural produce when and only when:

- the University controls the asset as a result of past events;
- it is probable that future economic benefits associated with the asset will flow to the University; and
- the fair value or cost of the asset can be measured reliably.

In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes. A biological asset is measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Cost may sometimes approximate fair value, particularly when:

- little biological transformation has taken place since initial cost incurrence or
- the impact of the biological transformation on price is not expected to be material

If an active market does not exist, the University uses one or more of the following, when available, in determining fair value:

- the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;
- market prices for similar assets with adjustment to reflect differences; and
- sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

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Notes to the Financial Statements Continued...

3. GRANTS IN AIDS

a) Capitation:

	2017/18	2016/17
	<u>KSHS</u>	<u>KSHS</u>
Monthly Capitation	668,864,780	553,088,149
CBA Arrears	98,000,000	-
Total	766,864,780	553,088,149

b) Transfers from Ministries, Departments and Agencies

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognised in capital fund	Total grant income during the year	2015-2016
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Education	766,864,780	-	13,356,900	780,221,680	734,448,767
Total	766,864,780	-	13,356,900	780,221,680	734,448,767

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NOTE	Notes to the Financial Statements Continued... DETAILS	2017/18 <u>KSHS</u>	2016/17 <u>KSHS</u>
3	GOVERNMENT GRANT		
	GoK Grants in Aid	766,864,780	553,088,149
	TOTAL	766,864,780	553,088,149
4	Donations and Gifts		
	Donations and Gifts	391,823	450,000
5	TUITION AND OTHER FEES		
	Tuition Fees	92,759,100	146,871,127
	ID/Registration Fees	3,830,040	3,682,220
	Examination Fees	21,653,025	30,032,109
	Material Development Fees	4,910,250	8,731,900
	Laboratory Workshop Materials Fees	4,207,250	4,264,000
	Medical Fees	13,650,283	17,769,410
	Computer Fees	6,933,316	9,221,490
	Library Fees	4,428,195	6,126,250
	Activity Fees	4,308,700	5,910,980
	Field Trips/Attachment Fees	13,527,663	16,213,333
	Clinical Transport-Field	108,500	40,000
	Examinations Remarketing	10,000	7,000
	Application Fees	456,500	676,010
	Accommodation fee	5,663,200	9,397,000
	SUB-TOTAL	176,446,022	258,942,829
6	OTHER INCOMES		
	a) Other incomes		
	Surcharges and Fines	502,790	373,517
	Printing and Photocopy	55,018	107,867
	Library Fines	12,301	45,428
	Transport Charges	453,008	514,602
	Sale of Tender Documents	10,000	2,000
	Miscellaneous Income	1,389,065	643,138
	Hospital Income	492,186	978,058
	Food Science Sales	190,150	114,040
	Chemistry sale of Detergent Income	4,280	7,250
	Gain on revaluation:	-	75,600
	Rental Income-Safaricom Mast	126,000	120,000
	Farm Sales -Dairy Farm	252,040	206,170
	Farm Sales-Beef	209,355	

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NOTE	Notes to the Financial Statements Continued...	2017/18	2016/17
	DETAILS	<u>KSHS</u>	<u>KSHS</u>
	Farm Sales -Food Crops	545,475	658,902
	Farm Sales -Grass	1,036,385	1,554,875
	Farm Sales - Fish	-	11,270
	Agriculture Dept Income-Demo farm	17,010	22,370
	Graduation Fees	3,550,800	4,099,500
	Hire of Academic Attire	587,800	663,200
	Students P.A.Y.E Sales	3,162,435	6,361,462
	Staff Cafeteria Sales	7,596,294	7,427,047
	Discount Received	-	39,066
	Conference Facilities	97,500	-
	Stock Variance Adjustment	5,144,513	-
	SUB-TOTAL	25,434,405	24,025,362
	b) Income for Deposits and Call Accounts		
	Interest on Deposits	12,426,608	3,654,097
	TOTAL OTHER INCOMES	37,861,013	27,679,459
7	OPERATIONAL EXPENSES		
	a) Personnel Emoluments		
	Basic Salary	363,350,494	205,743,869
	House Allowance	156,006,998	119,871,970
	Bus fare Allowance	16,745,972	15,303,439
	Use of own Car Allowance	30,029,000	26,223,772
	Non Practice Allowance	900,000	1,440,000
	Entertainment Allowance	9,141,587	8,844,131
	Responsibility Allowance	12,161,392	11,920,417
	Extraneous Allowance	5,658,198	5,531,149
	Leave Allowance	1,724,670	1,447,120
	Passage and Baggage	359,600	262,620
	Risk Allowance	201,984	144,000
	Domestic Work Allowance	1,837,500	1,890,000
	Book Allowance	750,000	960,000
	Management Allowance	5,941,774	5,334,999
	Water and Electricity Allowance	904,387	881,667
	Telephone Allowance	4,825,919	4,691,971
	Tender Allowance	48,000	196,000

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NOTE	Notes to the Financial Statements Continued...	2017/18	2016/17
DETAILS		<u>KSHS</u>	<u>KSHS</u>
	VC Commuter Allowance	220,000	240,000
	Duty House Allowance	2,100,000	2,160,000
	Security Allowance	1,050,000	1,080,000
	Acting Allowance	527,169	182,289
	Casual Wages	18,201,187	16,145,693
	Part-Time Teaching	52,111,875	103,300,175
	Overtime	-	134,112
	Students' Work Study Programme	167,680	240,000
	Gratuity	34,529,362	6,756,590
	Pension -Employer's Contribution	42,956,445	33,048,081
	Other Personnel Allowance	56,000	-
	Non-use of official car allowance	1,023,000	713,001
	SUB-TOTAL	763,530,192	574,687,065
	b) Maintenance Costs		
	Marimba Centre Maintenance	1,690,100	1,580,940
	Mariene Centre Maintenance	1,864,272	-
	Maintenance of Plant and Machinery	712,804	446,685
	Maintenance of Furniture and Fittings	26,250	2,550
	Maintenance of Buildings	8,535,312	6,355,990
	Maintenance of Water and Sewerage	2,554,837	839,121
	Maintenance of Roads	3,336,700	1,036,474
	Maintenance of Grounds	3,903,270	1,762,684
	Motor Vehicle Repair and Maintenance	3,133,220	3,515,912
	Maintenance of Computers	2,934,135	1,580,185
	Computer Software Maintenance	4,750,280	391,616
	SUB-TOTAL	33,441,180	17,512,157
	c) Council Expenses		
	Council Sitting Allowance	6,706,000	3,641,000
	Council Subsistence	5,623,800	3,157,600
	Council Monthly Honoraria	960,000	936,774
	Council Fare	281,412	347,804
	Council Mileage	3,123,453	944,170
	Council Telephone	60,000	58,548
	Council Air Travel	166,820	424,925
	Council Lunch	8,000	18,732
	SUB-TOTAL	16,929,485	9,529,553

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NOTE	Notes to the Financial Statements Continued... DETAILS	<u>2017/18</u> <u>KSHS</u>	<u>2016/17</u> <u>KSHS</u>
	d) Other Operational Expenses		
	Advertising & Publicity	5,119,219	7,623,850
	Audit Fees	870,000	1,070,000
	Bank Charges -O.D. Interest, Ledger Fee	635,197	593,501
	Chancellor Expenses	1,200,000	1,200,000
	Conferences and Seminars	1,840,110	2,329,128
	Contracted Professional Charges	732,792	1,862,865
	Electricity	8,191,841	6,899,921
	Security Services	16,053,480	15,430,280
	External Travel	230,801	107,787
	Funeral Expenses	554,000	-
	Gender and Disability Expenses	141,184	18,000
	Generator Expenses	745,289	864,201
	Hire of Equipment & Machinery	-	12,500
	Insurance	26,701,099	23,264,577
	Internet	17,877,228	13,354,045
	ISO Expenses	791,650	1,326,140
	Legal Fee	4,851,980	129,369
	Library Expenses	18,308,299	731,525
	Medical Expenses -Out Patient	4,674,737	3,510,828
	Medical Supplies	1,994,348	4,348,621
	Motor Vehicle Fuel	21,538	73,712
	Newspaper & Journals	34,520	405,266
	Performance Contracting	8,980	711,899
	Postal and Telegram	38,156	155,211
	Public Celebrations	-	60,400
	Publishing, Printing and Photography	407,600	75,000
	Rent and Rates	19,993,800	19,063,896
	Sanitation	14,270,155	14,112,624
	Show Expenses	690,470	710,091
	Uniform and Clothing	451,795	896,792
	KBT662N Total Fuel Card	90,961	89,927
	KBG309C Total Fuel Card	298,448	209,899
	KBT 611N Total Fuel Card	288,689	310,461
	KBN223E Kobil Fuel Card	386,217	439,899
	KBL 423G Total Fuel Card	229,292	323,759
	KBK 648Q Total Fuel Card	304,347	336,629

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NOTE	Notes to the Financial Statements Continued... DETAILS	2017/18	2016/17
		<u>KSHS</u>	<u>KSHS</u>
	KBU 127T Total Fuel Card	328,469	581,329
	KBN 226E Kobil Fuel Card	109,378	103,671
	KBJ 011U Kobil Fuel Card	223,596	269,094
	KCA 164F Kobil Fuel Card	418,500	483,446
	KBJ 110U Total Fuel Card	147,682	88,033
	KBL 424G Total Fuel Card	275,661	308,351
	KBU 111T Total Fuel Card	122,591	84,266
	KBU 089T Total Fuel Card	213,090	185,121
	KCA 165F Kobil Fuel Card	30,648	65,616
	KBT 610N Total Fuel Card	314,638	228,839
	KBG 332C Kobil Fuel Card	139,088	334,579
	KCH 861Q Total Fuel Card	115,206	41,000
	KBR 456U Total Fuel Card	195,843	40,000
	KBT 016N Total Fuel Card	47,698	15,000
	KCK 640U Total Fuel Card	129,807	-
	KCA 164F Total Fuel Card	52,000	-
	KCA 165F Total Fuel Card	42,000	-
	KBN 226E Total Fuel Card	40,000	-
	KBN 223E Total Fuel Card	73,689	-
	KBJ 011U Total Fuel Card	40,000	-
	KBG 332C Total Fuel Card	80,000	-
	KCK 640U Total Fuel Card	106,806	-
	Dental Optical Expenses	2,522,597	1,468,710
	Official Entertainment	-	79,600
	Subscription Expenses	381,702	231,400
	Loss on disposal	343,900	-
	Industrial Training Fee	-	1,495,205
	Marimba Water Bottling Plant Expenses	19,500	-
	Stock Variance	-	1,657,092
	SUB-TOTAL	155,542,311	130,412,955
	Dairy Production Expenses	765,200	435,655
	Farm Crops Inputs	529,000	408,311
	Farming/Production Costs	195,497	206,160
	Purchases	937,265	281,159
		2,426,962	1,331,285
	TOTAL OPERATIONAL EXPENSES	971,870,129	733,473,014

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NOTE	Notes to the Financial Statements Continued... DETAILS	<u>2017/18</u> <u>KSHS</u>	<u>2016/17</u> <u>KSHS</u>
8	ACADEMIC COSTS		
	Student Admission Expenses	154,000	322,300
	Quality Assurances CUE Expenses	-	400,540
	Programme Inspection Expenses	387,840	14,804
	Travel and Accommodation Academic	1,671,626	2,696,803
	Field Trips	683,913	1,769,900
	Graduation Expenses	5,016,866	9,365,135
	Industrial Attachment	2,321,482	4,117,415
	KUCCPS	6,832,500	-
	University Research Expenses	6,121,465	2,226,403
	Stationery Academic	2,844,109	3,014,020
	Student Examinations	2,035,736	2,146,000
	Teaching Materials	2,440,317	5,947,590
	Telephone Academic	78,894	49,450
	Training -Academic Staff	1,652,057	99,350
	Entertainment Academic	1,138,148	3,035,342
	Curriculum Development Expenses	10,724,085	1,044,800
	Computer Expenses Academic	-	63,699
	SUB-TOTAL	44,103,038	36,313,551
9	ADMINISTRATION COSTS		
	Travelling and Accommodation Admin	6,950,394	5,670,562
	Telephone Admin	101,120	144,110
	Entertainment Admin	3,101,886	2,776,899
	Stationery Admin	12,589,242	4,748,458
	Computer Expenses Admin	100,820	166,252
	Training -Non-Teaching Staff	1,577,538	1,738,100
	SUB-TOTAL	24,421,000	15,244,381
10	STUDENT WELFARE		
	Student Hostels Expenses	-	1,020
	Cooking Fuel	1,344,527	1,607,695
	Student Recreation Activities	1,920,225	4,722,480
	Foodstuffs	8,736,498	16,004,930
	Crockery & Kitchen Equipment	690,381	1,876,112
	Entertainment Student Welfare	260,535	213,385
		12,952,166	24,425,622

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NOTE	Notes to the Financial Statements Continued... DETAILS	<u>2017/18</u> <u>KSHS</u>	<u>2016/17</u> <u>KSHS</u>
11	DEPRECIATION and AMORTIZATION		
	DEPRECIATION		
	Buildings	38,166,352	38,130,148
	Furniture & Fittings	-	16,613,845
	Motor Vehicles	14,802,288	14,802,288
	Computers	-	4,629,480
	Machinery	-	11,775,373
	SUB-TOTAL	52,968,640	85,951,134
	 AMORTIZATION		
	ERP	2,896,887	2,896,887
	TOTAL	55,865,527	88,848,021
12	Cash And Bank Balances		

Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2017-2018 KShs	2016-2017 KShs
a) Current account			
Kenya Commercial bank	1117775917	84,466,239	111,809,389
Kenya Commercial bank	1121458165	114,151,182	127,720,334
National Bank of Kenya	102139008700	5,248,079	16,785,614
National Bank of Kenya	0124239008700	6,586,276	7,100,583
National Bank of Kenya	0102140013000	221,114	7,154,572
Equity Bank	1040297858661	10,941,357	28,495,219
Cooperative Bank		160,074,684	182,862,181
Sub- total		381,688,931	481,927,892
 b) Treasury Bills			
Central Bank of Kenya		26,799,766	-
Sub- total		26,799,766	-
Grand total		408,488,697	481,927,892

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NOTES TO FINANCIAL STATEMENTS CONTINUED...			
NOTE	DETAILS	2017/18 <u>KSHS</u>	2016/17 <u>KSHS</u>
13	PREPAYMENTS		
	Rent Deposits	418,640	578,662
	Electricity Deposits	2,004,500	2,004,500
	Prepaid Rent	-	8,433,088
	Prepaid Insurance	4,432,814	4,218,428
	SUB TOTAL	6,855,954	15,234,678
14	RECEIVABLES FROM EXCHANGE TRANSACTIONS		
	Staff Debtors	319,600	532,233
	Float debtors	-	
	Students Debtors	56,714,924	17,744,301
	Imprest	160,478	300,415
	Trade Debtors	7,921	-
	SAMU Subscriptions	-	216,943
	CDF Account	-	50,491
	Withholding Tax	119,725	
	Practical/Research/ Professional dev	24,000	
	Quality Assurance(QUE) Fees	42,500	
SUB TOTAL	57,389,147	18,844,383	
15	INVENTORY		
	Estate Hardware Store	3,884,135	1,558,908
	Health Drug Store	1,360,751	2,119,660
	Kitchen Store	1,027,773	603,490
	Stationery Stores	1,987,895	2,620,748
	SUB TOTAL	8,260,554	6,902,806

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NOTES TO THE FINANCIAL STATEMENTS (Continued)...

16. Property, plant and equipment

	LAND 0%	BUILDINGS 4%	WORK IN PROGRESS 0%	FURNITURE & FITTINGS 10%	COMPUTER S 20%	MOTOR VEHICLES 20%	MACHINERY & EQUIPMENT 10%	TOTAL Kshs
Cost/Valuation 30.6.2016	108,292,000	953,253,701	474,896,783	153,208,783	19,898,922	60,290,000	112,614,897	1,882,455,086
Additions	-	-	79,521,361	12,929,665	3,248,478	13,721,440	5,138,835	114,559,779
Cost/Valuation 30.6.2017	108,292,000	953,253,701	554,418,144	166,138,448	23,147,400	74,011,440	117,753,732	1,997,014,865
Additions: Purchases	-	905,100	50,430,421	9,317,283	2,803,775	-	5,363,238	68,819,817
ADB donation	-	-	-	-	-	-	189,350,794	189,350,794
Less Provision for Deprec. (30.6.17)	-	-	-	69,404,337	8,609,264	-	50,586,242	128,599,843
Revaluation Gain/(Loss)	108,292,000	954,158,801	604,848,565	106,051,394	17,341,911	74,011,440	261,881,522	2,126,585,633
	-	-	-	3,152,011	(877,116)	-	13,199,302	15,474,197
Cost/Valuation 30.6.2018	108,292,000	954,158,801	604,848,565	109,203,405	16,464,795	74,011,440	275,080,824	2,142,059,830
Provision for Deprec. (30.6.16)	-	142,225,459	-	52,790,492	3,979,784	13,016,710	38,810,869	250,823,314
Depreciation	-	38,130,148	-	16,613,845	4,629,480	14,802,288	11,775,373	85,951,134
Provision for Deprec. (30.6.17)	-	180,355,607	-	69,404,337	8,609,264	27,818,998	50,586,242	336,774,448
Depreciation	-	38,166,352	-	-	-	14,802,288	-	52,968,640
Provision for Deprec. (30.6.18)	-	218,521,959	-	-	-	42,621,286	-	261,143,245
Net Book Value								
NBV As at 30.06.2016	108,292,000	811,028,242	474,896,783	100,418,291	15,919,138	47,273,290	73,804,028	1,631,631,772
NBV As at 30.06.2017	108,292,000	772,898,094	554,418,144	96,734,111	14,538,136	46,192,442	67,167,490	1,660,240,417
NBV As at 30.06.2018	108,292,000	735,636,842	604,848,565	109,203,405	16,464,795	31,390,154	275,080,824	1,880,916,585

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Notes to the Financial Statements (Continued)

17 BIOLOGICAL ASSET

	Amount
RATE	0%
COST	
Changes in fair value	203,300
Balance B/F 1.7.2016	724,800
Add	
Changes in fair value	75,600
Net Book Value as at 30.06.2017	800,400
Additions	1,482,225
	2,282,625
Less Disposal	343,900
Net Book Value as at 30.06.2018	1,938,725

18. INTANGIBLE ASSET ERP

	ERP
RATE	10%
Cost as at 30.6.2016	28,968,872
Provision for Deprec. (30.6.16)	5,793,774
Depreciation Expense	2,896,887
Provision for Deprec. (30.6.17)	8,690,661
Depreciation Expense	2,896,887
Provision for Deprec. (30.6.18)	11,587,548
Net Book Value	
NBV As at 30.06.2016	23,175,098
NBV As at 30.06.2017	20,278,211
NBV As at 30.06.2018	17,381,324

Intangible asset is Enterprise Resource Planning system known as Microsoft Navision. The system was commissioned in the Financial Year 2014/15 and is expected to serve the University for a period of ten years.

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Notes to the Financial Statements Continued...

NOTE	DETAILS	<u>2017/18</u> <u>KSHS</u>	<u>2016/17</u> <u>KSHS</u>
19	TRADE AND OTHER PAYABLES		
	APPEAR Project	-	67,705
	CDF Account	136,370	-
	Cystic Echinococcosis Project-Prof Magambo -	12,191,122	12,070,489
	Dr. Eunice Marete -Research Project	458,650	458,650
	Dr. Joshua Arimi NACOSTI	2,500	202,500
	HELB Control Account	410,500	131,500
	Insurance Claim Refunds	130,000	655,251
	MUST Alumni Association	6,089,233	4,287,233
	MUST Pension Scheme	251,291	251,291
	Prof J Magambo Bursary Fund	-	40,750
	Quality Assurance(QUE) Fees	-	5,862,000
	Quality Audit Fees	13,012,700	9,791,000
	Placement Fees (KUCCPS)	4,539,000	3,852,000
	Accreditation (Regulating Body) Fees	1,356,700	968,200
	Students Indexing by Regulator Fees	636,650	857,000
	Teaching Practice Fees	4,948,000	2,358,000
	Research Administration Fund	701,494	701,494
	Retention Money for Projects	22,541,622	23,824,456
	SAMU Subscriptions	350,387	-
	Sundry Creditors	49,482,754	71,583,660
	NBK Recurrent Unidentified deposits	43,172	43,172
	NBK Fees Collection A/c Unidentified Deposits	162,800	114,600
	NBK Project A/C Unidentified Deposits	789,250	760,750
	Equity Fees A/c Unidentified Deposits	326,158	277,928
	KCB Fees Coll Unidentified Deposits	1,192,028	514,699
	Co-op Fees Coll Unidentified Deposits	561,385	286,983
	NBK Main Unidentified Deposits	87,500	-
	Faulu	-	18,948
	VAT on Purchases	58,426	1,336,842
	Withholding Tax	-	70,290
	MEIWA Project	478,250	-
	Joy Riungu-Utafiti Project	707,274	-
	Research Funds	14,036,582	-
	Salaries General	2,614	-
	Gratuity Owing	29,719,777	-
	Leave Allowance Owing	887,350	-
	HELB -Payment	157,035	-
	SUB TOTAL	166,448,575	141,387,391
20	PROVISIONS		
	Provision for Part-time	52,535,375	45,643,500
	SUB TOTAL	52,535,375	45,643,500

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Notes to the Financial Statements Continued...

NOTE	DETAILS	NOTE <u>KSHS</u>	DETAILS <u>KSHS</u>
21	DEFERRED INCOME		
	Deferred Tuition Fee	54,515,471	-
	SUB TOTAL	<u>54,515,471</u>	<u>-</u>
22	CAPITAL		
	Capital B/F	2,070,060,703	1,888,700,085
	Additional Capital during the year	13,356,900	181,360,618
		<u>2,083,417,603</u>	<u>2,070,060,703</u>
	Add: Donation-ADB Equipment	189,350,794	-
	Capital C/F	<u>2,272,768,397</u>	<u>2,070,060,703</u>
23	REVENUE RESERVE		
	Revenue Reserve B/F	(68,631,601)	(18,439,095)
			50,000
		<u>(68,631,601)</u>	<u>(18,389,095)</u>
		4,980,055	7,951,645
		<u>(63,651,546)</u>	<u>(10,437,450)</u>
	Surplus for the Year	(127,648,222)	(58,194,151)
	Revenue Reserves C/F	<u>(191,299,769)</u>	<u>(68,631,601)</u>
24	Revaluation Surplus		
	Revaluation-Computers B/F	7,906,576	10,878,166
	Less: Depreciation-Computers	-	2,971,590
	less: Loss on Revaluation-Computers	877,116	-
	Net Revaluation Surplus (Computers)	<u>7,029,460</u>	<u>7,906,576</u>
	Revaluation-Motor Vehicles B/F	7,862,219	12,842,274
	Less: Depreciation-Motor Vehicles	4,980,055	4,980,055
	Net Revaluation Surplus (Motor-Vehicle)	<u>2,882,164</u>	<u>7,862,219</u>
	Revaluation Surplus-Equipment	13,199,302	-
	Revaluation Surplus- Furniture	3,152,011	-
	Revaluation Surplus C/F	<u>26,262,937</u>	<u>15,768,795</u>

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24. Cash generated from operations

	2017-2018	2016-2017
	KShs	KShs
Surplus for the year before tax	(127,648,222)	(58,194,151)
Adjusted for:		
Depreciation	55,865,527	88,848,021
Non-cash grants received	-	-
Contributed assets	-	-
Impairment	-	-
Gains and losses on disposal of assets	343,900	(75,600)
Contribution to provisions	-	-
Contribution to impairment allowance	-	-
Finance income	-	-
Finance cost	-	-
Working Capital adjustments		
Increase in inventory	(1,357,748)	(2,358,372)
Increase in receivables	(30,166,040)	25,925,116
Increase in deferred income	-	-
Increase in payables	86,468,530	(13,176,738)
Increase in payments received in advance	-	-
Net cash flow from operating activities	(16,494,053)	40,968,275

25. RELATED PARTY DISCLOSURE

Council

The following individuals served as Council members during the year:

Prof. Gulacho Galgalo Barako (Chairman)
 Ms Mary Mugo
 Ms. Felicity Biriri
 Mrs. Margaret M. Mukoba
 Mr. Omar Kassim
 Mr. Robert Mutai
 CPA Isabella Kogei
 Dr. Meshack Opwora
 Ms Margaret Iyasi Lesuuda
 Prof. Japhet K. Magambo (Vice Chancellor)

The Council members, except the Vice Chancellor, were paid sitting allowances, per diem, mileage, and airfare, and for Chairman- Director's fee and telephone allowance. The University also paid for their medical insurance cover. The University paid the Council members a total of Kshs. 16,929,485 in form of allowances as follows:

Council Sitting Allowance	6,706,000	3,641,000
Council Subsistence	5,623,800	3,157,600

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Council Monthly Honoraria	960,000	936,774
Council Fare	281,412	347,804
Council Mileage	3,123,453	944,170
Council Telephone	60,000	58,548
Council Air Travel	166,820	424,925
Council Lunch	8,000	18,732
SUB-TOTAL	16,929,485	9,529,553

None of the Council members was advanced a loan by the University during the Financial Year.

None of the Council members had other dealings with the University other than as Council members.

University Management Board Members

The following individuals served as University Management Board members during the year:

Prof. Japhet K Magambo	Vice Chancellor
Prof. Charity Gichuki	Deputy Vice Chancellor (AFP)
Prof. Gitonga Nkanata	Deputy Vice Chancellor (ARS)
Prof. Peter Masinde	Registrar (Academic and Research & Student Affairs)
Dr. Elijah Walubuka	Registrar (Administration & Planning)
CPA Nephath Njeru	Finance Officer
Ms. Evelyne Gitonga	Deputy Registrar (Human Resources)
Dr Guyo Sarr Huka	AG. Deputy Vice Chancellor (AFP)
Dr Eunice Marete	AG. Registrar (Academic and Research & Student Affairs)

The total amount paid to the University Management Board members in terms of salaries and allowances was Kshs. 46 million. None of the University Board members was advanced a loan by the University during the Financial Year

None of the University Management Board members had other dealings with the University other than as an employee of the university.

Government

The Government of Kenya is the largest single sponsor of the University. During the year, the University received Kshs. 780,221,680 from the Government for Recurrent and Capital expenditure.

The Government is responsible for the appointment of the Council Members.

26. CONTINGENT LIABILITIES

There was no contingent liability worth reporting during the year.

27. FINANCIAL RISKS

The University has initiated and facilitated the process that will see the enhancement of risk management. It has an integrated risk management framework. The University recognizes the critical role the risk management will continue to play in its endeavour to carry out its business in a dynamic environment. The University is committed to ensuring that corporate governance and risk management are deeply entrenched in its strategy and culture. An elaborate risk management strategy that will provide direction on matters of policy and guide the implementation and control has been developed.

This risk management framework captures the following among other things: -

- The University's risk appetite and parameters;
- The University's risk matrix that highlights the rating of risks;
- The structure of managing risks and accountabilities;
- The processes, procedures and reports that manage risks;
- The mitigating factors, prevention, contingency plans and controls.

The University's core business involves major engagements with financial transactions and processes which pose certain risks. The University Council has the overall responsibility for the establishment and oversight of the University's risk management framework. The University Council has delegated its risk management to the 'Audit Committee'. One of the responsibilities of this committee is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial transactions and processes are managed by the 'Finance Committee' of the University Council.

The financial management objectives and policies are as outlined below: -

a) Liquidity Risk

Liquidity risk is the risk that the University will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/operational outflows, assets and liabilities according to their maturity profiles.

The objective of the liquidity management is to ensure that all foreseeable operational and capital commitment expenditure can be met under both normal and stressed conditions and the mismatch is controlled in line with allowable risk levels. The University has adopted an overall balance sheet approach which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, cash flows and interest rate considerations. The University's liquidity and funding management process includes: -

- Projecting cash flows and considering the cash required and optimizing the short term requirements as well as the long term funding,
- Maintaining balance sheet liquidity ratios.

Prudent liquidity risk management includes maintaining sufficient cash to meet University obligations. The University manages liquidity risk by maintaining adequate cash reserves to ensure liabilities are paid as they fall due and to cushion against any liquidity risk. The table

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below shows the University's financial liabilities that will be settled on a net basis. The amounts disclosed are the contractual undiscounted cash flows:

As at 30 June 2018	
Financial Assets	Kshs
Cash and cash equivalents	408,488,697
Receivables from exchange transactions	57,389,147
Prepayments	6,855,954
	472,733,798
Financial liabilities	
Payables	218,983,950
Net Liquidity	253,749,848
Liquidity ratio	2.16

A liquidity ratio of 2.16 indicate that the liquidity risk was low during the year.

b) Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, prices and interest rates. The objective of market risk management policy is to protect and enhance the Statements of Financial Position and performance by managing and controlling market risk exposures within acceptable parameters, and to optimize the funding of business operations and facilitate capital expansion. The University is exposed to the following market risks: -

(i) Currency Risk

Currency risk arises primarily from purchasing imported goods and services from overseas or indirectly via local supplies, or services that are priced in foreign currency such as internet (US Dollars). Nevertheless, the currency risk is minimal as cash and cash equivalents held with banks are denominated in Kenya Shillings and there are minimal dealings in foreign currency.

(ii) Interest Rate Risk

The University is exposed to various risks associated with effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises. The University closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities on the statement of financial position.

The interest rates on call deposits held in financial institutions are fixed and agreed upon on monthly basis. The Management is in regular contact with the bank in a bid to obtain the best interest rates and therefore able to plan for the resulting income.

The interest rate risk is minimal as the University does not have any borrowings.

c) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the University's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as legal and regulatory requirements and generally acceptable standards of corporate behaviour. The University seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks. The University's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the University's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk in the following areas: -

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of financial transactions;
- Compliance with regulatory and legal requirements;
- Documentation of controls and procedures;
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirement for the reporting of operational losses and proposed remedial action;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where it is effective.

Operational risks are documented in the 'Risk Register and Opportunity Assessment Document' and are managed by the Risk Management Committee established to spearhead and coordinate risk management activities. The measures taken include proactively identifying, analyzing and mitigating risks in all facets of the business.

d) Compliance and Regulatory Risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The University complied with all externally imposed requirements throughout the year.

e) Legal Risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or the loss for the University, failure to protect the title to and liability to control the rights to assets of the University (including intellectual property right), changes in law, or jurisdictional risk. The University manages legal risk through the legal office, legal risk policies and procedures and the effective use of internal controls and external lawyers.

f) Credit Risk

Credit risk is the risk that a borrower is unable to meet his financial obligations to the lender. The University's credit risk is attributable to its cash and cash equivalents and trade receivables. Both bank balances and trade receivables are fully performing and no debt has

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been impaired. The amount that best represents the University's maximum exposure to credit risk is made up as follows;

Details	2017-2018	2016-2017	2015-2016
	Kshs.	Kshs.	Kshs.
Total revenue	981,563,638	840,160,437	903,253,558
Less: Total expenses	1,109,211,861	898,354,589	817,413,227
Surplus / (Deficit)	(127,648,222)	(58,194,151)	85,840,331

28. OPERATING LEASES

The University has two operating leases:

i. Hart Towers

The premises cover an area of 11,754 square feet and the tenancy agreement is for six years at a rent of Kshs.705, 240 monthly for the first two years. The rent would escalate to Kshs 775,764 per month after two years and in the fifth and sixth year; the rent would be Kshs 853,340 per month.

ii. Marimba Farm

On May 1st, 2014, the University entered into a fifteen years' lease agreement with the Ministry of Agriculture, Livestock and Fisheries for the lease of Marimba Farm. Marimba Farm is the property of Agricultural Development Corporation which is under the Ministry of Agriculture, Livestock and Fisheries. The lease agreement states that University will pay Kshs. 1,400,000 per annum for the first three years. After three years, the rent will be reviewed upwards. The lease agreement also provides that the fifteen-year contract is divided into three terms and each party can terminate the contract after every five-year term.

29. Events after the reporting period

No event, either adjusting or non-adjusting has been reported after the balance sheet date

30. Ultimate and Holding Entity

MUST is a Semi- Autonomous Government Agency under the Ministry of Education. Its ultimate parent is the Government of Kenya.

31. Currency

The financial statements are presented in Kenya Shillings (Kshs).

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APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0 Property, Plant and Equipment	1.1 Construction of an Engineering Tuition Block Included in the property, plant and equipment balance of Kshs. 1,660,240,417 as at 30 th June 2017 was Kshs. 474,896,783 spent on the Construction of the Engineering Tuition Block. The project was awarded to Newspace Creation Contractors on 6 December 2011 at a contract price of Kshs. 474,896,783 and a contract time of sixty-eight (68) weeks from 6 December 2011 to 26 March 2013 as per paragraph five (5) of the Contract Agreement. However, a physical inspection carried out on 13 March 2018 revealed that the project had not been completed, four years after the completion deadline and it was not possible to ascertain whether it would be completed at the contracted price. Further, no certificates of completion were availed to show the percentage of work done. The building was to be built up to three floors but the contractor was doing the second floor at the time of the physical verification on 13 March 2018. No records were made available to show that there was a contract time extension. In the circumstances, the propriety and value for money for the expenditure of Kshs. 474,896,783 for the construction of the engineering tuition block could not be confirmed as at 30 June 2017.	The contract time extension was granted vide a Contract Addendum to a period of five years. Nevertheless, the contractor has indeed taken longer than expected. The Contractor has already requested for extension of time. A program of work is already developed. The Contractor has made a written commitment that the project will be completed in August 2018. The University will demand strict adherence to the programme of work.	Dr. Elijah Walubuka Registrar Administration & Planning	Not Resolved	August 2018
2.0	Irregular Procurement of Advertisement Services Included in the operational expenses balance of Kshs. 733,523,014 was Kshs. 7,623,850 spent on advertising and publicity which further included four payments totalling to Kshs. 3,676,040 made to Nation Media Group for advertisement purposes. A review of the	Meru University of Science and Technology is a Government Institution. The University occasionally informs the public of the opportunities of university or higher education offered by it. The university has endeavoured to comply to guidelines governing advertising by Public	Mr. George Miriti Procurement Officer	Resolved	

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	<p>supporting documents however revealed that the supplier was directly procured contrary to the requirements of Section 103(2)(a) of the Public Procurement and Asset Disposal Act, 2015.</p> <p>In the circumstances, the propriety and value for money for the expenditure of Kshs. 3,676,040 as at 30 June 2017 cannot be confirmed.</p>	<p>entities owned by the Government of Kenya. Currently, the University publishes all its print advertisements in the Government of Kenya Publication, MyGov, publication that was established through the Treasury Circular Ref: No. OP/CAB.58/4A dated 8th February 2017. The University complied with this government directive immediately the circular was released.</p>	<p>Prof. Gichuki Deputy Chancellor (AFP) Mr. Nephath Njeru Finance Officer</p>	<p>Not Resolved</p>	
<p>3.0</p>	<p>3.0 Financial Performance The statement of financial performance for the year under review reflects a huge performance decline of Kshs. 143,934,482 (168%) from a surplus of Kshs. 85,840,331 for the financial year 2015/2016 to a deficit of Kshs. 58,194,151 for the year under review. An analysis of revenue and expenditure revealed that the University's annual recurrent grant from the Ministry of Education was Kshs. 553,088,149, an amount similar to the previous year's grant. Revenue from exchange transaction however reduced by 18% from Kshs. 350,165,487 in the previous year to Kshs. 287,033,222 in the year under review. On the other hand, the University's expenditure increased by 7% from Kshs. 817,413,227 in the previous year to Kshs. 877,343,522 in the year under review. Although the going concern status of the University is not threatened, this may change in future if the decline in performance continues.</p> <p>The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Meru University of Science and Technology in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is</p>	<p>The decline in the financial performance was brought about by a number of factors:</p> <p>The Recurrent Grant from the Ministry of Education for financial year 2016/2017 remained at Kshs.553 million same as that of financial year 2015/2016 despite the fact that inflation had depreciated the value of the shilling. The situation has changed in financial year 2017/2018 as the capitulation has been increased to Kshs.668 million.</p> <p>Revenue from Exchange Transactions declined because the decline in the number of students in our self-sponsored programmes. The University is trying to reverse the situation by introducing market driven courses even at diploma and certificate levels.</p> <p>Expenses increased during the financial year 2016/2017 compared to the previous year because there was a general increase in the prices of goods and services consumed by the University. Further, the number of staff increased thereby increasing the wage bill and other operational expenses.</p>	<p>Prof. Gichuki Deputy Chancellor (AFP) Mr. Nephath Njeru Finance Officer</p>	<p>Not Resolved</p>	

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	sufficient and appropriate to provide a basis for my qualified opinion.	The University deliberately carried out some cost saving measures to contain the costs. Some planned recruitments of staff were cancelled in a bid to tame the wage bill. The University also cancelled or scaled down some operational expenses without affecting the quality of services offered by the University.	
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Vice Chancellor



Sign-----
Date: November 27, 2018

Chairman of the Council



Sign-----
Date: November 27, 2018

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

The University is not currently implementing any project funded by Development partners.

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APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:	Meru University of Science and Technology		
	Break down of Transfers from the State Department of University Education and Research			
	FY 17/18			
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		03-07-17	46,926,451	2017/2018 CBA 2013/2017
		19-07-17	51,348,839	2017/2018
		01-08-17	51,167,199	2017/2018
		04-09-17	51,167,199	2017/2018
		03-10-17	51,167,198	2017/2018
		03-11-17	51,167,199	2017/2018
		01-12-17	22,742,961	2017/2018
		01-12-17	51,167,199	2017/2018
		02-01-18	4,548,592	2017/2018
		02-01-18	51,167,198	2017/2018
		08-02-18	4,548,592	2017/2018
		08-02-18	51,167,199	2017/2018
		13-03-18	4,548,592	2017/2018
		13-03-18	51,167,199	2017/2018
		06-04-18	4,548,592	2017/2018
		06-04-18	51,167,199	2017/2018
		02-05-18	4,548,592	2017/2018
		02-05-18	51,167,199	2017/2018
		11-06-18	4,548,592	2017/2018
		11-06-18	51,167,199	2017/2018
		28-06-18	4,548,592	2017/2018
		29-06-18	51,167,198	2017/2018
		Total	766,864,780	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		19-06-18	13,356,900	2017/2018
		Total	13,356,900	

The above amounts have been communicated to and reconciled with the parent Ministry

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

The University did not receive funds from other Government entities other than State Department of University Education and Research.

